

LEOLA SCHOOL DISTRICT NO. 44-2
LEOLA, SOUTH DAKOTA
AUDIT REPORT
FOR THE YEAR THEN ENDED
JUNE 30, 2017

LEOLA SCHOOL DISTRICT NO. 44-2
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CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

School Board
Leola School District No. 44-2
McPherson County, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Leola School District No. 44-2, South Dakota (School District) as of June 30, 2017 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 2, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings, items 2017-001, 2017-002, and 2017-003 to be material weaknesses.

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School Board
Leola School District No. 44-2
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Report on Internal Control and Compliance

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Leola School District No. 44-2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

School District's Response to Findings

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Calill Bower

Mobridge, South Dakota
May 2, 2018

**LEOLA SCHOOL DISTRICT NO. 44-2
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
JUNE 30, 2017**

STATUS OF PRIOR AUDIT FINDINGS

Finding Number 2016-001:

Internal control over financial reporting and compliance is not adequate.

Current Status

Condition still exists, see current audit finding number 2017-001.

Finding Number 2016-002:

The District's internal control structure does not provide for the preparation of financial statements in accordance with generally accepted accounting principles.

Current Status

Condition still exists, see current audit finding number 2017-002.

Finding Number 2016-003:

Internal control does not provide for identifying material misstatements.

Current Status

Condition still exists, see current audit finding number 2017-003.

Finding Number 2016-004:

The School District's expenditures in the Capital Outlay Fund exceeded budgeted appropriations, which is a violation of SDCL 13-11-2.

Current Status

This condition has been corrected.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Finding Number 2017-001:

Criteria

The internal control system of a School can help assist in achieving its performance targets and prevent the loss of resources. It helps to ensure reliable financial reporting and the compliance with laws and regulations.

Condition Found

The School District has a limited number of office personnel and, accordingly, does not have adequate internal controls in revenue, expenditures, and payroll functions because of a lack of segregation duties.

LEOLA SCHOOL DISTRICT NO. 44-2
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
JUNE 30, 2017

Identification of Repeat Finding:

This has been a repeat finding for several years in a row.

Effect

This condition increases the risk that fraud or errors might occur in the financial reporting process.

Cause

The School District has one employee who prepares all the accounting records.

Recommendation

We recommend a high level of awareness be maintained by management to assist in preventing, detecting, or correcting matters that may arise due to this internal control weakness. Compensating controls should be implemented as necessary.

Views of Responsible Officials

Due to staff size, it is not deemed feasible to adequately segregate duties. However, we are aware of this internal control weakness and intend to provide continuous monitoring in an effort to prevent, detect, or correct any matters that may result.

Finding Number 2017-002:

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with generally accepted accounting principles.

Condition Found

The School does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with generally accepted accounting principles. As auditors, we were requested to draft the financial statements.

Identification of Repeat Finding:

This has been a repeat finding for several years in a row.

Effect

This condition may affect the School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Cause

The control deficiency could result in a misstatement of the financial statements.

LEOLA SCHOOL DISTRICT NO. 44-2
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
JUNE 30, 2017

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials

The business manager, Kayla Casey, is the contact person responsible for the Views of Responsible Officials for this comment. The School is continuing its work on correcting this deficiency.

Finding Number 2017-003

Criteria

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting record are in accordance with generally accepted accounting principles.

Condition Found

While conducting our audit, we proposed material audit adjustments that would not have been identified as a result of the School District's existing internal controls, and therefore could have resulted in a material misstatement of the School District's financial statements.

Identification of Repeat Finding:

This has been a repeat finding for several years in a row.

Effect

This condition may affect the School District's ability to record, process, summarize, and report financial statement data consistent with the assertions of management in the financial statements.

Cause

Material adjustments were proposed and made to the financial statements in order for them to conform to GAAP.

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations.

Views of Responsible Officials

The School District is continuing its work in correcting this deficiency.



CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

School Board
Leola School District No. 44-2
McPherson County, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Leola School District No. 44-2 (School District), as of June 30, 2017 and for the year then ended, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The School District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Leola School District No. 44-2 as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, Schedule of School District Contributions, and Schedule of the School District's Proportionate Share of the Net Pension Liability (Asset) on pages 45 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The School District has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2018 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School District's internal control over financial reporting and compliance.

Cahill Bauer

Mobridge, South Dakota
May 2, 2018

LEOLA SCHOOL DISTRICT NO. 44-2
STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 701,152	\$ 2,641	\$ 703,793
Advance payments	2,500	-	2,500
Investments	687,021	-	687,021
Taxes receivable	1,071,445	-	1,071,445
Inventories	9,453	16,740	26,193
Other assets	105,304	17,005	122,309
Capital assets			
Land, improvements	18,000	-	18,000
Other capital assets, net depreciation	4,746,725	46,801	4,793,526
TOTAL ASSETS	7,341,600	83,187	7,424,787
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	548,489	16,397	564,886
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 548,489	\$ 16,397	\$ 564,886

The accompanying notes to the basic financial statements are an integral part of this statement.

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Accounts payable	\$ 53,890	\$ 16,615	\$ 70,505
Other current liabilities	99,626	166	99,792
Noncurrent liabilities:			
Due within one year	225,000	-	225,000
Due in more than one year	2,816,402	-	2,816,402
Net pension liability	216,989	7,885	224,874
TOTAL LIABILITIES	3,411,907	24,666	3,436,573
NET POSITION			
Net Investment in			
Capital Assets	1,736,625	46,801	1,783,426
Restricted for:			
Capital Outlay	1,357,711	-	1,357,711
Special Education	363,675	-	363,675
Pension	53,054	-	53,054
SDRS Pension Purposes	331,500	8,512	340,012
Unrestricted	635,617	19,605	655,222
TOTAL NET POSITION	\$ 4,478,182	\$ 74,918	\$ 4,553,100

LEOLA SCHOOL DISTRICT NO. 44-2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
Instruction	\$ 1,564,215	\$ -	\$ 80,406	\$ (1,483,809)	\$ -	\$ (1,483,809)
Support services	1,432,820	2,450	9,276	(1,421,094)	-	(1,421,094)
Community services	12,520	-	-	(12,520)	-	(12,520)
Nonprogrammed charges	1,095	-	-	(1,095)	-	(1,095)
Cocurricular activities	120,439	14,686	-	(105,753)	-	(105,753)
** Interest on long term debt	75,410	-	-	(75,410)	-	(75,410)
Total governmental activities	3,206,499	17,136	89,682	(3,099,681)	-	(3,099,681)
Business-type activities						
Food services	225,508	41,803	171,550	-	(12,155)	(12,155)
Other enterprise funds	1,420	2,310	-	-	890	890
Total business-type activities	226,928	44,113	171,550	-	(11,265)	(11,265)
Total primary government	\$ 3,433,427	\$ 61,249	\$ 261,232	\$ (3,099,681)	\$ (11,265)	\$ (3,110,946)
General Revenues						
Taxes						
Property taxes				2,110,382	-	2,110,382
Utility taxes				91,578	-	91,578
Revenue from state sources:						
State Aid				816,501	-	816,501
Revenue from federal sources				1,515	-	1,515
Unrestricted investments earnings				1,887	-	1,887
Other general revenues				29,903	-	29,903
Transfers				(9,505)	9,505	-
Total general revenues and transfers				3,042,261	9,505	3,051,766
Change in net position				(57,420)	(1,760)	(59,180)
Net position - beginning				4,535,602	76,678	4,612,280
Net position - ending				\$ 4,478,182	\$ 74,918	\$ 4,553,100

** The District does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

LEOLA SCHOOL DISTRICT NO. 44-2
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund
ASSETS	
Cash and cash equivalents	\$ 59,189
Investments	210,478
Advance payments	2,500
Taxes-receivables	379,285
Taxes-delinquent	9,914
Accounts receivable	-
Due from state government	98,978
Inventory	9,453
TOTAL ASSETS	\$ 769,797
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 25,975
Contracts payable	81,449
Payroll deductions and withholdings payable and employer matching payable	10,354
Total Liabilities	117,778
Deferred Inflows of Resources:	
Unavailable revenue - property taxes	387,472
Total Deferred Inflows of Resources	387,472
Fund Balances:	
Nonspendable (inventory)	9,453
Restricted	
Capital outlay	-
Special education	-
Pension	-
Unassigned	255,094
Total Fund Balance	264,547
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE:	\$ 769,797

The accompanying notes to the basic financial statements are an integral part of this statement.

Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
\$ 417,877	\$ 171,719	\$ 52,367	\$ 701,152
421,067	55,476	-	687,021
-	-	-	2,500
528,669	144,837	-	1,052,791
6,473	1,580	687	18,654
6,326	-	-	6,326
-	-	-	98,978
-	-	-	9,453
<u>\$ 1,380,412</u>	<u>\$ 373,612</u>	<u>\$ 53,054</u>	<u>\$ 2,576,875</u>
\$ 22,701	\$ 5,214	\$ -	\$ 53,890
-	4,205	-	85,654
-	518	-	10,872
<u>22,701</u>	<u>9,937</u>	<u>-</u>	<u>150,416</u>
532,929	145,811	687	1,066,899
532,929	145,811	687	1,066,899
-	-	-	9,453
824,782	-	-	824,782
-	217,864	-	217,864
-	-	52,367	52,367
-	-	-	255,094
<u>824,782</u>	<u>217,864</u>	<u>52,367</u>	<u>1,359,560</u>
<u>\$ 1,380,412</u>	<u>\$ 373,612</u>	<u>\$ 53,054</u>	<u>\$ 2,576,875</u>

LEOLA SCHOOL DISTRICT NO. 44-2
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balances - governmental funds	\$	1,359,560
Amounts reported for governmental activities in the statement of net position are different because:		
Net pension liability reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		(216,989)
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. The capitalized cost of the capital assets is \$6,305,871 and the accumulated depreciation is (\$1,541,146) for a net amount of \$4,764,725.		4,764,725
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.		548,489
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities consist of compensated absences of \$16,402, capital outlay certificates of \$3,025,000, and accrued interest of \$3,100.		(3,044,502)
Governmental funds report property tax revenue on the modified accrual basis of accounting recognizing revenue in the period for which the levy was made subject to meeting availability criteria which results in deferral of some revenue recognition while the statement of net position recognizes property tax revenue in the period for which it was levied without regard to availability criteria.		1,066,899
Total net position - governmental funds	\$	4,478,182

LEOLA SCHOOL DISTRICT NO. 44-2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund
REVENUES:	
Revenue from local sources:	
Taxes:	
Ad valorem taxes	\$ 741,629
Prior years' ad valorem taxes	5,663
Utility taxes	91,578
Penalties and interest on taxes	3,537
Earnings on investments and deposits	1,652
Cocurricular activities:	
Admissions	9,976
Other pupil activity income	4,710
Other revenue from local sources:	
Rentals	2,335
Contributions and donations	77
Refund of prior years expenditures	652
Charges for services	2,229
Other	3,156
Total revenue from local sources	867,194
Revenue from intermediate sources	
County sources:	
County appointment	15,725
Revenue in lieu of taxes	301
Total revenue from intermediate sources	16,026
Revenue from state sources:	
Grants-in-aid:	
Unrestricted grants-in-aid	809,101
Tax base on shooting areas	7,400
Total revenue from state sources	816,501
Revenue from federal sources:	
Grants-in-aid:	
Restricted grants-in-aid thru state	89,682
Other federal revenue	1,515
Total revenue from federal sources	91,197
Total revenues	\$ 1,790,918

(Continued on next page)

Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
\$ 1,047,079	\$ 274,446	\$ 51,937	\$ 2,115,091
7,988	1,927	799	16,377
-	-	-	91,578
5,402	1,338	520	10,797
70	165	-	1,887
-	-	-	9,976
-	-	-	4,710
-	-	-	2,335
-	-	-	77
-	-	-	652
-	221	-	2,450
76	-	-	3,232
-	-	-	2,259,162
-	-	-	15,725
-	-	-	301
-	-	-	16,026
-	-	-	809,101
-	-	-	7,400
-	-	-	816,501
-	-	-	89,682
-	-	-	1,515
-	-	-	91,197
\$ 1,060,615	\$ 278,097	\$ 53,256	\$ 3,182,886

LEOLA SCHOOL DISTRICT NO. 44-2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund
Expenditures:	
Instruction:	
Regular programs:	
Elementary	\$ 737,559
Middle/junior high	100,983
High school	417,130
Special programs:	
Programs for special education	-
Educationally deprived	113,695
Total instruction	<u>1,369,367</u>
Support services:	
Pupils:	
Guidance	12,777
Health	646
Psychological	-
Speech pathology	-
Student therapy services	-
Instructional staff:	
Improvement of instruction	29,364
Educational media	61,960
General administration:	
Board of education	61,123
Executive administration	119,184
School administration:	
Office of the principal	86,240
Title I program administration	6,050
Other	75
Business:	
Fiscal services	113,120
Facilities acquisition & construction	-
Operation and maintenance of plant	218,110
Pupil transportation	85,166
Central:	
Staff	346
Special education:	
Administrative costs	-
Other	-
Total support services	<u>\$ 794,161</u>

(Continued on next page)

Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
\$ 21,149	\$ -	\$ -	\$ 758,708
2,731	-	-	103,714
12,502	-	-	429,632
-	34,042	-	34,042
-	-	-	113,695
36,382	34,042	-	1,439,791
-	-	-	12,777
-	-	-	646
-	29,166	-	29,166
-	13,414	-	13,414
-	5,614	-	5,614
3,150	-	-	32,514
144,821	-	-	206,781
-	-	-	61,123
1,500	-	-	120,684
690	-	-	86,930
-	-	-	6,050
-	-	-	75
690	-	-	113,810
49,630	-	-	49,630
106,434	-	-	324,544
14,632	-	-	99,798
-	-	-	346
-	141,642	-	141,642
-	35,542	-	35,542
\$ 321,547	\$ 225,378	\$ -	\$ 1,341,086

LEOLA SCHOOL DISTRICT NO. 44-2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund
Community Services:	
Direction	\$ 12,520
Total Community Services	12,520
Nonprogrammed charges	
Payments to state unemployment	1,095
Total nonprogrammed charges	1,095
Debt Services	-
Cocurricular activities:	
Male activities	39,009
Female activities	27,429
Transportation	20,406
Combined activities	12,528
Total cocurricular activities	99,372
Capital outlay	-
Total expenditures/expenses	2,276,515
Other financing sources (uses)	
Transfers in	335,950
Transfers out	(9,505)
Sale of surplus property	2,892
Total other financing sources (uses)	329,337
Net change in fund balances	(156,260)
Fund balance - beginning	420,807
Fund balance - ending	\$ 264,547

The accompanying notes to the basic financial statements are an integral part of this statement.

Capital Outlay Fund	Special Education Fund	Pension Fund	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 12,520
-	-	-	12,520
-	-	-	1,095
-	-	-	1,095
300,410	-	-	300,410
2,768	-	-	41,777
-	-	-	27,429
-	-	-	20,406
-	-	-	12,528
2,768	-	-	102,140
212,281	-	-	212,281
873,388	259,420	-	3,409,323
-	-	-	335,950
(141,000)	-	(194,950)	(345,455)
4,689	-	-	7,581
(136,311)	-	(194,950)	(1,924)
50,916	18,677	(141,694)	(228,361)
773,866	199,187	194,061	1,587,921
\$ 824,782	\$ 217,864	\$ 52,367	\$ 1,359,560

LEOLA SCHOOL DISTRICT NO. 44-2
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT
OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds	\$ (228,361)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense.	55,372
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In both the government-wide and fund financial statements, revenues from property tax levies are applied to finance the budget of a particular period. Accounting for revenues from property tax accruals in the funds' statements differs from the accounting in the government wide statements in that the fund financial statements require the amounts to be "available". This amount reflects the application of both the application period and "availability criteria".	(31,883)
--	----------

Governmental funds recognize expenditures for amounts of compensated absences and early retirement benefits actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.	(2,666)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These expenses consist of pension expense of \$74,882.	(74,882)
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Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.	225,000
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Change in net position of governmental activities	\$ (57,420)
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LEOLA SCHOOL DISTRICT NO. 44-2
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Food Service Fund	Drivers Education Fund	Total Proprietary Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ 2,641	\$ 2,641
Accounts receivable	112	-	112
Due from federal government	16,893	-	16,893
Inventory of supplies	207	-	207
Inventory of store purchased for resale	2,913	-	2,913
Inventory of donated foods	13,620	-	13,620
Total Current Assets	33,745	2,641	36,386
Capital assets			
Machinery and equipment	102,839	-	102,839
Accumulated depreciation	(56,038)	-	(56,038)
Total Noncurrent Assets	46,801	-	46,801
TOTAL ASSETS	80,546	2,641	83,187
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows	16,397	-	16,397
TOTAL DEFERRED OUTFLOWS OF RESOURCES	16,397	-	16,397
LIABILITIES			
Current liabilities:			
Accounts payable	16,242	373	16,615
Unearned revenue	166	-	166
Total Current Liabilities	16,408	373	16,781
Noncurrent liabilities:			
Net pension liability	7,885	-	7,885
Total Noncurrent Liabilities	7,885	-	7,885
TOTAL LIABILITIES	24,293	373	24,666
NET POSITION			
Net investment in capital assets	46,801	-	46,801
Restricted for SDRS	8,512	-	8,512
Unrestricted	17,337	2,268	19,605
TOTAL NET POSITION	\$ 72,650	\$ 2,268	\$ 74,918

The accompanying notes to the basic financial statements are an integral part of this statement.

LEOLA SCHOOL DISTRICT NO. 44-2
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Food Service Fund	Drivers Education Fund	Total Proprietary Funds
OPERATING REVENUES			
Sales			
To pupils	\$ 28,032	\$ -	\$ 28,032
To adults	7,754	-	7,754
A la carte	6,017	-	6,017
Other charges for goods and services	-	2,310	2,310
Total operating revenues	<u>41,803</u>	<u>2,310</u>	<u>44,113</u>
OPERATING EXPENSES			
Salaries	53,837	883	54,720
Employee benefits	8,530	-	8,530
Purchased services	76,913	-	76,913
Supplies	3,630	537	4,167
Cost of sales - purchased food	63,247	-	63,247
Cost of sales - donated food	10,946	-	10,946
Dues and fees	1,216	-	1,216
Other	349	-	349
Depreciation	6,840	-	6,840
Total operating expenses	<u>225,508</u>	<u>1,420</u>	<u>226,928</u>
Operating income/(loss)	<u>(183,705)</u>	<u>890</u>	<u>(182,815)</u>
NONOPERATING REVENUES			
State sources			
State grants	562	-	562
Federal sources			
Cash reimbursements	152,806	-	152,806
Donated food	18,182	-	18,182
Total nonoperating revenues	<u>171,550</u>	<u>-</u>	<u>171,550</u>
Net income/(loss) before transfers	(12,155)	890	(11,265)
Transfers in	9,505	-	9,505
Change in net position	<u>(2,650)</u>	<u>890</u>	<u>(1,760)</u>
Total net position - July 1, 2016	75,300	1,378	76,678
Total net position - June 30, 2017	<u>\$ 72,650</u>	<u>\$ 2,268</u>	<u>\$ 74,918</u>

LEOLA SCHOOL DISTRICT NO. 44-2
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Food Service Fund	Drivers Education Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 43,408	\$ 2,310	\$ 45,718
Payments to employees for services	(60,236)	(883)	(61,119)
Payments to suppliers of goods and services	(145,930)	(164)	(146,094)
Net cash provided/(used) by operating activities	<u>(162,758)</u>	<u>1,263</u>	<u>(161,495)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from the general fund	9,505	-	9,505
Operating grants	160,139	-	160,139
Net cash provided by noncapital financing activities	<u>169,644</u>	<u>-</u>	<u>169,644</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,886	1,263	8,149
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>(6,886)</u>	<u>1,378</u>	<u>(5,508)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ 2,641</u></u>	<u><u>\$ 2,641</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES			
Operating income/(loss)	\$ (183,705)	\$ 890	\$ (182,815)
ADJUSTMENTS TO RECONCILE OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES			
Depreciation expense	6,840	-	6,840
Value of donated commodities used	10,946	-	10,946
Change in assets and liabilities			
Receivables	1,638	-	1,638
Inventories	(41)	-	(41)
Accounts and other payables	(567)	373	(194)
Change in pension asset/(liability)	<u>2,131</u>	<u>-</u>	<u>2,131</u>
Net cash provided/(used) by operating activities	<u><u>\$ (162,758)</u></u>	<u><u>\$ 1,263</u></u>	<u><u>\$ (161,495)</u></u>
Noncash investing, capital and financing activities:			
Value of commodities received	<u><u>\$ 18,182</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 18,182</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

LEOLA SCHOOL DISTRICT NO. 44-2
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Private-Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 1,248	\$ 23,605
TOTAL ASSETS	<u>1,248</u>	<u>23,605</u>
LIABILITIES		
Amount held for others	-	23,605
TOTAL LIABILITIES	<u>-</u>	<u>23,605</u>
NET POSITION		
Held in trust for scholarships and memorials	<u>1,248</u>	<u>-</u>
TOTAL NET POSITION	<u><u>\$ 1,248</u></u>	<u><u>\$ -</u></u>

LEOLA SCHOOL DISTRICT NO. 44-2
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Private-Purpose Trust Funds
ADDITIONS	
Other additions	\$ 455
DEDUCTIONS	
Other deductions	200
Change in net position	255
Total net position - July 1, 2016	993
Total net position - June 30, 2017	\$ 1,248

**LEOLA SCHOOL DISTRICT NO. 44-2
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(See Independent Auditors' Report)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity

The reporting entity of the Leola School District No. 44-2, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; those organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The School District participates in a cooperative service unit with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the School District.

b. Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Position reports all financial and capital resources, in a net position form (assets minus liabilities, equal net position). Net Position is displayed in three components, as applicable, net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

NOTES TO FINANCIAL STATEMENTS - Page 2
(See Independent Auditors' Report)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses and those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the School District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and;
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or;
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the School District financial reporting entity are described below within their respective fund types:

Governmental Funds

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the School District, excluding Capital Outlay Fund and Special Education Fund expenditures. The General Fund is always a major fund.

Special Revenue Funds - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the School District. This fund is financed by grants and property taxes. This is a major fund.

NOTES TO FINANCIAL STATEMENTS - Page 3
(See Independent Auditors' Report)

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. This fund is financed by property taxes. This is a major fund.

Pension Fund - A fund established by SDCL 13-10-6 for the purpose of paying pensions to retired employees of school districts, which have established such systems, paying the School District's share of retirement plan contributions, and for funding early retirement benefits to qualified employees. This fund is financed by property taxes. This is a major fund.

Proprietary Funds

Enterprise Funds - Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit - even if that government is not expected to make any payments - is not solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt services), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

The Driver's Education Fund is an enterprise fund maintained by the School District. This is a major fund.

Fiduciary Funds

Fiduciary funds consist of the following sub-categories and are never considered to be a major funds:

Private-Purpose Trust Funds - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The School District maintains only the following private-purpose trust funds: Jean Scholarship Fund.

NOTES TO FINANCIAL STATEMENTS - Page 4
(See Independent Auditors' Report)

Agency Funds - Agency funds are used to account for resources held by the School District in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The School District maintains agency funds to hold assets as an agent in a trustee capacity for various classes and clubs.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus

Government-wide Financial Statements

In the Government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental type funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and similar fiduciary funds.

Basis of Accounting

Government-wide Financial Statements

In the Government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Leola School District No. 44-2, the length of that cycle is 60 days. The revenues which are accrued at June 30, 2017 are expected state reimbursements, utility taxes, and miscellaneous reimbursements.

NOTES TO FINANCIAL STATEMENTS - Page 5
(See Independent Auditors' Report)

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All Proprietary Funds and Fiduciary Fund Types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications

Government Wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund so that expenses are reported only in the function to which they relate.

e. Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely (primarily) of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

NOTES TO FINANCIAL STATEMENTS - Page 6
(See Independent Auditors' Report)

f. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements, or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with US GAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with US GAAP.

The total June 30, 2017 balance of capital assets for governmental activities includes approximately 10 percent for which the costs were determined by estimates of the original costs. The total June 30, 2017 balance of capital assets for business-type activities includes approximately 8 percent for which the costs were determined by estimates of the original costs. The estimated original costs for capital assets were determined by reviewing applicable historical costs and basing the estimations thereon.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Position. Capitalization thresholds (the dollar values above which assets acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ 1,000	N/A	N/A
Improvements, other than buildings	15,000	Straight-line	12-50 years
Buildings	50,000	Straight-line	50 years
Machinery and equipment	5,000	Straight-line	5-20 years
Food service equipment	1,000	Straight-line	12 years

Land is an inexhaustible capital asset and is not depreciated.

NOTES TO FINANCIAL STATEMENTS - Page 7
(See Independent Auditors' Report)

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

g. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the governmental-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of capital outlay certificates, net pension liability, and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

h. Program Revenues

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the School District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

- 1: Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
- 2: Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
- 3: Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

NOTES TO FINANCIAL STATEMENTS - Page 8
(See Independent Auditors' Report)

i. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

j. Cash and Cash Equivalents:

The School District pools its cash resources for depositing and investing purposes. Accordingly, the enterprise funds have access to their cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

k. Equity Classifications

Government-wide Financial Statements

Equity is classified as Net Position and is displayed in three components:

- 1: Net Investment in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- 2: Restricted Net Position - Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- 3: Unrestricted Net Position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements

Governmental fund equity is classified as fund balance, and is distinguished between Nonspendable, Restricted, Committed, Assigned or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

l. Application of Net Position

It is the School District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

NOTES TO FINANCIAL STATEMENTS - Page 9
(See Independent Auditors' Report)

m. Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the School District classifies governmental fund balances as follows:

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the School Board.

Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The School District uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

n. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension revenue, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. School District contributions and net pension liability are recognized on an accrual basis of accounting.

NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

NOTES TO FINANCIAL STATEMENTS - Page 10
(See Independent Auditors' Report)

Deposits - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk - State law limits eligible investments for the School District as discussed above. The School District has no investment policy that would further limit its investment choices.

As of June 30, 2017, all of the School District's investments were in certificates of deposit and SDFIT. The School District's investments total of \$555,692 in the SDFIT pool was unrated.

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine member board with representation from municipalities, school districts, and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

Interest Rate Risk - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income to the fund making the investment.

NOTES TO FINANCIAL STATEMENTS - Page 11
(See Independent Auditors' Report)

NOTE 3 - RECEIVABLES AND PAYABLES

Receivables are not aggregated in these financial statements. The School District expects all receivables to be collected within one year.

NOTE 4 - INVENTORY

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

In the government-wide financial statements, and in the enterprise fund financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of government as they are consumed.

In the governmental fund financial statements, inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by Nonspendable Fund Balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTE 5 - PROPERTY TAXES

Property taxes are levied on or before each October 1, attach as an enforceable lien on property, and become due and payable as of the following January 1, and are payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the School District's taxes and remits them to the School District. School District property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore and not susceptible to accrual has been reported as deferred revenue in the fund financial statements. Property tax revenues intended to finance the current year's appropriations, and therefore susceptible to accrual, have been reported as revenue in the government-wide financial statements, even though collection will occur in a future fiscal year.

NOTES TO FINANCIAL STATEMENTS - Page 12
(See Independent Auditors' Report)

NOTE 6 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for year ended June 30, 2017 is as follows:

	Balance 07/01/2016	Increases	Decreases	Balance 06/30/2017
Primary Government				
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 18,000	\$ -	\$ -	\$ 18,000
Construction in progress	276,471	-	(276,471)	-
Total capital assets, not being depreciated	294,471	-	(276,471)	18,000
Capital assets, being depreciated				
Buildings	3,986,204	352,479	-	4,338,683
Improvements other than buildings	988,081	91,143	-	1,079,224
Machinery and equipment	824,834	45,130	-	869,964
Total capital assets, being depreciated	5,799,119	488,752	-	6,287,871
Less accumulated depreciation for				
Buildings	687,960	74,458	-	762,418
Improvements other than buildings	225,139	33,503	-	258,642
Machinery and equipment	471,138	48,948	-	520,086
Total accumulated depreciation	1,384,237	156,909	-	1,541,146
Total capital assets, being depreciated, net	4,414,882	331,843	-	4,746,725
Governmental activity capital assets, net	\$ 4,709,353	\$ 331,843	\$ (276,471)	\$ 4,764,725

Depreciation expense was charged to functions as follows:

	6/30/2017
Governmental activities	
Instructional	\$ 72,987
Support Services	67,510
Cocurricular	16,412
Total depreciation expense - governmental activities	\$ 156,909

NOTES TO FINANCIAL STATEMENTS - Page 13
(See Independent Auditors' Report)

	Balance 07/01/2016	Increases	Decreases	Balance 06/30/2017
Business-type activities				
Capital assets, being depreciated				
Machinery and equipment	102,839	-	-	102,839
Total capital assets, being depreciated	102,839	-	-	102,839
Less accumulated depreciation for				
Machinery and equipment	49,198	6,840	-	56,038
Total accumulated depreciation	49,198	6,840	-	56,038
 Total business-type activities, capital assets, being depreciated, net	 53,641	 (6,840)	 -	 46,801
 Business-type activities capital assets, net	 \$ 53,641	 \$ (6,840)	 \$ -	 \$ 46,801

Depreciation expense was charged to functions as follows:

	6/30/2017
Business-type activities	
Food Service	\$ 6,840

NOTE 7 - LONG-TERM DEBT

A summary of the changes in long-term liabilities for the year ended June 30, 2017 is as follows:

	Beginning Balance 07/01/2016	Additions	Deletions	Ending Balance 06/30/2017	Due Within One Year
Primary government					
Governmental activities					
Capital outlay certificates	\$ 3,250,000	\$ -	\$ (225,000)	\$ 3,025,000	\$ 225,000
Compensated absences	13,736	6,555	(3,889)	16,402	-
 Total governmental activities	 3,263,736	 6,555	 (228,889)	 3,041,402	 225,000

NOTES TO FINANCIAL STATEMENTS - Page 14
(See Independent Auditors' Report)

Debt payable at June 30, 2017, is comprised of the following:

Capital Outlay Certificates, Series 2012, maturing December 2031, 2.59% interest, semi annual interest payments and annual principal payments, made from the Capital Outlay Fund.	3,025,000
Compensated Absences, payments to be made by the fund that the payroll expenditures are charged within.	<u>16,402</u>
Total long-term debt	<u><u>\$3,041,402</u></u>

The annual debt service requirements to maturity for bonds payable and capital outlay certificates outstanding as of June 30, 2017 are as follows:

Annual requirements to Maturity for Long-Term Debt as of June 30, 2017:

Year Ending June 30, 2017	Capital Outlay Certificates	
	Principal	Interest
2018	\$ 225,000	\$ 73,104
2019	230,000	70,200
2020	235,000	66,651
2021	235,000	62,480
2022	200,000	58,198
2023-2027	885,000	226,616
2028-2032	1,015,000	87,904
	<u>3,025,000</u>	<u>645,153</u>

NOTE 8 - RESTRICTED NET POSITION

<u>Fund</u>	<u>Restricted By</u>	<u>6/30/2017</u>
Special Education	Law	\$ 363,675
Capital Outlay	Law	1,357,711
Pension	Law	53,054
SDRS Pension Purposes	Law	331,500
Total Restricted Net Position		<u><u>\$2,105,940</u></u>

These balances are restricted due to statutory requirements.

NOTES TO FINANCIAL STATEMENTS - Page 15
(See Independent Auditors' Report)

NOTE 9 - INDIVIDUAL FUND INTERFUND BALANCES AND INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2017 were as follows:

<u>6/30/2017</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Total</u>
General Fund	\$ 335,950	\$ (9,505)	\$ 326,445
Capital Outlay Fund	-	(141,000)	(141,000)
Pension Fund	-	(194,950)	(194,950)
Food Service Fund	9,505	-	9,505
Total	<u>\$ 345,455</u>	<u>\$ (345,455)</u>	<u>\$ -</u>

Transfers from the General Fund to the Food Service Fund were made due to the service revenues being in sufficient to support the expenditures of the fund. Transfers of funds from the Pension Fund to the General Fund were made due to the Pension Fund closing in the near future. Transfers from the Capital Outlay Fund to the General Fund are permitted under SDCL 13-16-6. These interfund transfers are not violations of the statutory restrictions on interfund transfers.

NOTE 10 - PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

NOTES TO FINANCIAL STATEMENTS - Page 16
(See Independent Auditors' Report)

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

If the SDRS market value funded ratio is 100% or more - 3.1% COLA

If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
90% to 99.9% funded - 2.1% minimum and 2.8% maximum COLA
80% to 90% funded - 2.1% minimum and 2.4% maximum COLA

If the SDRS market value funded ratio is less than 80% - 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living-Adjustment.

NOTES TO FINANCIAL STATEMENTS - Page 17
(See Independent Auditors' Report)

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6% of salary; Class B Judiciary Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the years ended June 30, 2017, 2016, and 2015 was \$86,869, \$75,201, and \$69,144, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2016, SDRS is 96.89% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the School District as of the measurement period ending June 30, 2016 and reported by the School District as of June 30, 2017 are as follows:

Proportionate share of pension liability	\$ 7,223,906
Less proportionate share of net pension restricted for pension benefits	<u>6,999,032</u>
Proportionate share of net pension liability	<u>\$ 224,874</u>

At June 30 2017, the School District reported a liability of \$224,874 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the School District's proportion was .06657210% which is an increase of .0020988% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$74,882. At June 30, 2017 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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(See Independent Auditors' Report)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 78,284	\$ -
Changes in assumption	134,689	-
Net difference between projected and actual earnings on pension plan investments	250,136	-
Changes in proportion and difference between District contributions and proportionate share of contributions	14,908	-
School district contributions subsequent to the measurement date	86,869	-
Total	<u>\$ 564,886</u>	<u>\$ -</u>

\$86,869 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended June 30:	
2018	\$ 131,959
2019	82,586
2020	160,175
2021	103,297
TOTAL	<u>\$ 478,017</u>

Actuarial Assumptions:

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service

NOTES TO FINANCIAL STATEMENTS - Page 19
(See Independent Auditors' Report)

Investment Rate of Return	7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense
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Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	100.0%	

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(See Independent Auditors' Report)

Discount Rate:

The discount rate used to measure the total pension liability was 7.25 percent through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of asset to changes in the discount rate:

The following presents the School District's proportionate share of net pension liability/(asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the School's proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
School District's Proportionate share of the net pension liability/(asset)	\$ 1,258,392	\$ 224,874	\$ (618,071)

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

NOTE 11 - JOINT VENTURES

The School District participates in the North Central Special Education Cooperative, a cooperative service unit (co-op) formed for the purpose of providing Special Education Services to the member School Districts. Each member district has an equal interest in the cooperative.

The members of the co-op are as follows:

- Doland School District No. 56-2
- Frederick Area School District No. 6-2
- Groton Area School District No. 6-6
- Hitchcock Tulare School District No. 56-6
- Langford Area School District No. 45-5
- Leola School District No. 44-2
- Northwestern Area School District No. 56-7
- Warner School District No. 6-5

NOTES TO FINANCIAL STATEMENTS - Page 21
(See Independent Auditors' Report)

The North Central Special Education Cooperative governing board is composed of one representative from each member School District, who is elected by the local School Board. The Board is responsible for adopting the joint ventures budget and setting service fees at a level adequate to fund the adopted budget.

The School District retains no equity in the net position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the North Central Special Education Cooperative.

At June 30, 2017, this joint venture had total assets of \$301,522, net position of \$301,522 (unaudited), and no long-term debt outstanding.

The School District also participates in the joint venture known as Northern High Technology Module Consortium formed for the purpose of providing technological equipment to the member School Districts. Each member district has an equal interest in the consortium (unaudited).

The members of the co-op are as follows:

- Edmunds Central School District No. 22-5
- Eureka School District No. 44-1
- Groton School District No. 6-3
- Leola School District No. 44-2
- Warner School District No. 6-5
- Selby Area School District No. 62-5
- Ipswich School District No. 22-3

The Northern High Technology Module Consortium governing board is composed of the superintendents from each member School District. The Board is responsible for adopting the joint ventures budget and setting service fees at a level adequate to fund the adopted budget.

Angie Vetter performs the recordkeeping for this consortium.

The School District retains no equity in the net position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from Angie Vetter.

At June 30, 2017 this joint venture had total assets of \$50,282 and net position of \$50,282 and no reported long-term debt outstanding.

NOTE 12 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2017, the School District managed its risks as follows:

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(See Independent Auditors' Report)

Employee Health Insurance

The School District purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

The School District joined the Associated School Boards of South Dakota Property Liability Fund (ASBSD-PLF), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota school districts. The objective of the ASBSD-PLF is to administer and provide risk management services and risk sharing to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The School District's responsibility is to promptly report to the cooperate with the ASBSD-PLF to resolve any incident which could result in a claim being made by or against the School District. The School District pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of teh ASBSD-PLF member, based on their exposure or type of coverage. The School District pays an annual premium to the pool to provide coverage for covered interests including, but not limited to buildings, personal property, general liability, accounts receivable, valuable papers, fine arts, property in transit, ordinance or law, school board errors and omissions, and cost of defense, crime, and boiler and machinery. The agreement with the ASBSD-PLF provides that the above coverage's will be provided to various deductibles for differing types of coverage. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$100,000 to the upper limit. The School District has various deductibles for differing types of insurance coverage. The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

NOTES TO FINANCIAL STATEMENTS - Page 23
(See Independent Auditors' Report)

Workmen's Compensation

The School District participates with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Worker's Compensation Fund Pool, which provides workers' compensation insurance coverage for participating members of the pool. The objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The School District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the fund to resolve any worker's compensation claims. The School District pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the fund members. The School District may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. The pool pays the first \$500,000 of any claim per individual. The pool has reinsurance, which covers up to \$1,000,000 per individual per incident. The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

The School District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The School District appropriates an amount each year in the General Fund to provide resources for potential claims for unemployment benefits.

During the fiscal year ended June 30, 2017, \$1,095 in unemployment claims were paid. At June 30, 2017, the School District does not anticipate that any substantive additional claims will be paid in the subsequent fiscal year.

NOTE 13 - LITIGATION

At June 30, 2017, the School District was not involved in any litigation.

NOTES TO FINANCIAL STATEMENTS - Page 24
(See Independent Auditors' Report)

NOTE 14 - CLASSROOM RENTAL AGREEMENT

The School District entered into an agreement with the Long Lake Colony to lease a building for classroom purposes. The agreement was entered into in June 2012. The School District agreed to payments totaling \$10,000 per year for two years in June 2013 and June 2014; and, payments of \$5,384 for each year from June 2015 to June 2027.

NOTE 15 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

LEOLA SCHOOL DISTRICT NO. 44-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

Data	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget	
	Original	Final			
REVENUES:					
1000	Revenue from Local Sources:				
1100	Taxes:				
1110	Ad Valorem Taxes	\$ 708,508	\$ 708,508	\$ 741,629	\$ 33,121
1120	Prior Years' Ad Valorem Taxes	3,500	3,500	5,663	2,163
1140	Utility Taxes	90,000	90,000	91,578	1,578
1190	Penalties and Interest on Taxes	2,500	2,500	3,537	1,037
1510	Interest	3,635	3,635	1,652	(1,983)
1700	Cocurricular Activities:				
1710	Admissions	8,500	8,500	9,976	1,476
1790	Other	2,800	2,800	4,710	1,910
1900	Other Revenue from Local Sources:				
1910	Rentals	-	-	2,335	2,335
1920	Contributions and Donations	-	-	77	77
1950	Refund of Prior Year Expenditures	-	-	652	652
1970	Charges for Services	-	-	2,229	2,229
1990	Other	8,000	8,000	3,156	(4,844)
2000	Revenue from Intermediate Sources:				
2100	County Sources:				
2110	County Apportionment	6,500	6,500	15,725	9,225
2200	Revenue in Lieu of taxes	880	880	301	(579)
3000	Revenue from State Sources:				
3110	Unrestricted Grants-in-Aid	1,167,629	1,167,629	809,101	(358,528)
3210	Tax Base on Shooting Areas	-	-	7,400	7,400
4000	Revenue from Federal Sources:				
4199	Received Directly from Federal Government				
	Through the State	93,128	93,128	89,682	(3,446)
4900	Other Federal Revenue	-	-	1,515	1,515
Total Revenue		\$ 2,095,580	\$ 2,095,580	\$ 1,790,918	\$ (304,662)

(Continued on next page)

LEOLA SCHOOL DISTRICT NO. 44-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

Data	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget	
	Original	Final			
EXPENDITURES:					
1000	Instruction:				
1100	Regular Programs:				
1111	Elementary	\$ 688,441	\$ 688,441	\$ 737,559	\$ (49,118)
1120	Middle/Junior High	149,685	149,685	100,983	48,702
1130	High School	384,091	384,091	417,130	(33,039)
1200	Special Programs:				
1270	Educationally Deprived	108,383	108,383	113,695	(5,312)
2000	Support Services:				
2100	Pupils:				
2120	Guidance	-	-	12,777	(12,777)
2130	Health Services	1,500	1,500	646	854
2200	Support Services-Instructional Staff:				
2210	Improvement of Instruction	29,731	29,731	29,364	367
2220	Educational Media	97,155	97,155	61,960	35,195
2300	Support Services-General Administration:				
2310	Board of Education	57,500	57,500	61,123	(3,623)
2321	Executive Administration	122,800	122,800	119,184	3,616
2400	Support Services - School Administration:				
2410	Office of the Principal	99,560	99,560	86,240	13,320
2440	Title I Administration	4,310	4,310	6,050	(1,740)
2490	Other	-	-	75	(75)
2500	Support Services-Business:				
2520	Fiscal Services	118,815	118,815	113,120	5,695
2540	Operation & Maintenance of Plant	235,590	235,590	218,110	17,480
2550	Pupil Transportation	89,268	89,268	85,166	4,102
2600	Support Services-Central:				
2640	Staff	500	500	346	154
3000	Community Services:				
3100	Direction	25,520	25,520	12,520	13,000
4000	Nonprogrammed Charges				
4400	Payments to State Unemployment	1,500	1,500	1,095	405
6000	Cocurricular Activities				
6100	Male Activities	24,347	24,347	39,009	(14,662)
6200	Female Activities	21,659	21,659	27,429	(5,770)
6500	Transportation	21,300	21,300	20,406	894
6900	Combined Activities	14,020	14,020	12,528	1,492
7000	Contingencies	11,876	11,876	-	11,876
Total Expenditures		\$ 2,307,551	\$ 2,307,551	\$ 2,276,515	\$ 31,036

(Continued on next page)

LEOLA SCHOOL DISTRICT NO. 44-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

Data	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Excess Revenue Over/Under Expenditures	\$ (211,971)	\$ (211,971)	\$ (485,597)	\$ (273,626)
Other Financing Sources				
5110 Transfer In	213,000	213,000	335,950	-
8110 Transfer Out	(1,029)	(1,029)	(9,505)	(8,476)
5130 Sale of Surplus Property	-	-	2,892	2,892
Total Other Financing Sources	211,971	211,971	329,337	(5,584)
Net Change in Fund Balances	-	-	(156,260)	(156,260)
Fund Balance - Beginning	420,807	420,807	420,807	-
Fund Balance - Ending	\$ 420,807	\$ 420,807	\$ 264,547	\$ (156,260)

LEOLA SCHOOL DISTRICT NO. 44-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2017

Data	Budgeted Amounts		Actual Amounts (Budgetary	Variance with Final Budget	
	Original	Final			
REVENUES:					
1000	Revenue from Local Sources:				
1100	Taxes:				
1110	Ad Valorem Taxes	\$ 1,051,034	\$ 1,051,034	\$ 1,047,079	\$ (3,955)
1120	Prior Years' Ad Valorem Taxes	3,000	3,000	7,988	4,988
1190	Penalties and Interest on Taxes	-	-	5,402	5,402
1510	Interest	500	500	70	(430)
1900	Other Revenue from Local Sources:				
1990	Other	-	-	76	76
Total Revenue		\$ 1,054,534	\$ 1,054,534	\$ 1,060,615	\$ 6,081

LEOLA SCHOOL DISTRICT NO. 44-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
CAPITAL OUTLAY FUND
FOR THE YEAR ENDED JUNE 30, 2017

Data	Budgeted Amounts		Actual Amounts (Budgetary	Variance with Final Budget	
	Original	Final			
EXPENDITURES:					
1000	Instruction:				
1100	Regular Programs:				
1111	Elementary	\$ 55,000	55,000	\$ 21,149	\$ 33,851
1120	Middle/Junior High	20,000	20,000	2,731	17,269
1130	High School	36,200	36,200	12,502	23,698
2200	Support Services-Instructional Staff:				
2210	Improvement of Instruction	-	-	3,150	(3,150)
2220	Educational Media	136,000	136,000	144,821	(8,821)
2300	Support Services-General Administration:				
2321	Executive Administration	1,500	1,500	1,500	-
2410	Office of the Principal	1,000	1,000	690	310
2500	Support Services-Business				
2520	Fiscal Services	2,000	2,000	690	1,310
2530	Facilities Acquisition and Construction	75,000	75,000	74,221	779
2540	Operation & Maintenance of Plant	316,334	316,334	269,770	46,564
2550	Pupil Transportation	21,000	21,000	29,632	(8,632)
5000	Debt Services	305,000	305,000	300,410	4,590
6000	Cocurricular Activities				
6100	Male Activities	4,000	4,000	7,445	(3,445)
6200	Female Activities	4,000	4,000	4,677	(677)
Total Expenditures		977,034	977,034	873,388	103,646
Excess Revenue Over/Under Expenditures		77,500	77,500	187,227	109,727
Other Financing Sources					
8110	Transfer Out	(213,000)	(213,000)	(141,000)	72,000
5130	Sale of Surplus Property	-	-	4,689	4,689
Total Other Financing Sources		(213,000)	(213,000)	(136,311)	76,689
Net Change in Fund Balances		(135,500)	(135,500)	50,916	186,416
Fund Balance - Beginning		773,866	773,866	773,866	-
Fund Balance - Ending		\$ 638,366	\$ 638,366	\$ 824,782	\$ 186,416

LEOLA SCHOOL DISTRICT NO. 44-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2017

Data	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget	
	Original	Final			
REVENUES:					
1000	Revenue from Local Sources:				
1100	Taxes:				
1110	Ad Valorem Taxes	\$ 259,570	\$ 259,570	\$ 274,446	\$ 14,876
1120	Prior Years' Ad Valorem Taxes	2,000	2,000	1,927	(73)
1190	Penalties and Interest on Taxes	-	-	1,338	1,338
1510	Interest	1,500	1,500	165	(1,335)
1900	Other Revenue from Local Sources:				
1970	Charges for Services	2,080	2,080	221	(1,859)
Total Revenue		\$ 265,150	\$ 265,150	\$ 278,097	\$ 12,947

LEOLA SCHOOL DISTRICT NO. 44-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2017

Data	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget	
	Original	Final			
EXPENDITURES:					
1200	Special Programs:				
1220	Programs for Special Education	\$ 30,412	\$ 30,412	\$ 34,042	\$ (3,630)
2000	Support Services:				
2100	Pupils:				
2140	Psychological Services	31,644	31,644	29,166	2,478
2150	Speech	-	-	13,414	(13,414)
2170	Student Therapy Services	-	-	5,614	(5,614)
2700	Special Education:				
2710	Administrative Costs	172,450	172,450	141,642	30,808
2750	Other Special Education Costs	30,644	30,644	35,542	(4,898)
Total Expenditures		265,150	265,150	259,420	5,730
Excess Revenue Over/Under Expenditures		-	-	18,677	18,677
Net Change in Fund Balances		-	-	18,677	18,677
Fund Balance - Beginning		199,187	199,187	199,187	-
Fund Balance - Ending		\$ 199,187	\$ 199,187	\$ 217,864	\$ 18,677

LEOLA SCHOOL DISTRICT NO. 44-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION FUND
FOR THE YEAR ENDED JUNE 30, 2017

Data	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget	
	Original	Final			
REVENUES:					
1000	Revenue from Local Sources:				
1100	Taxes:				
1110	Ad Valorem Taxes	\$ 41,034	\$ 41,034	\$ 51,937	\$ 10,903
1120	Prior Years' Ad Valorem Taxes	256	256	799	543
1190	Penalties and Interest on Taxes	-	-	520	520
Total Revenue		41,290	41,290	53,256	11,966
EXPENDITURES:					
1000	Instruction:				
1100	Regular Programs:				
1111	Elementary	31,500	31,500	-	31,500
1120	Middle/Junior High	8,000	8,000	-	8,000
1130	High School	24,000	24,000	-	24,000
2200	Support Services - Instructional Staff				
2220	Educational Media	3,600	3,600	-	3,600
2300	Support Services - General Admin				
2320	Executive Administration	6,000	6,000	-	6,000
2400	Support Services - School Admin				
2410	Office of the Principal	5,000	5,000	-	5,000
2500	Support Services - Business				
2520	Fiscal Services	6,100	6,100	-	6,100
2540	Operation and Mainenance of Plant	4,200	4,200	-	4,200
6000	Cocurricular Activities				
6100	Male Activities	1,170	1,170	-	1,170
6200	Femail Activities	1,520	1,520	-	1,520
6900	Combined Activities	200	200	-	200
Total Expenditures		91,290	91,290	-	91,290
Excess Revenue Over/Under Expenditures		(50,000)	(50,000)	53,256	103,256

LEOLA SCHOOL DISTRICT NO. 44-2
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
PENSION FUND
FOR THE YEAR ENDED JUNE 30, 2017

Data	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget
	Original	Final		
Other Financing Sources				
8110 Transfer Out	\$ -	\$ -	\$ (194,950)	\$ (194,950)
Total Other Financing Sources	-	-	(194,950)	(194,950)
Net Change in Fund Balances	(50,000)	(50,000)	(141,694)	(91,694)
Fund Balance - Beginning	194,061	194,061	194,061	-
Fund Balance - Ending	\$ 144,061	\$ 144,061	\$ 52,367	\$ (91,694)

LEOLA SCHOOL DISTRICT NO. 44-2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017

Schedules of Budgetary Comparisons for the General Fund and for each major Special Revenue Fund with a legally required budget.

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

The School District followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in May of each year the School Board prepares a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the School Board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the School Board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the School Board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total School District budget and may be transferred by resolution of the School Board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the School Board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.
11. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

LEOLA SCHOOL DISTRICT NO. 44-2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - Page 2
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 - GAAP/BUDGETARY ACCOUNTING BASIS DIFFERENCES

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new school bus would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a school bus would be reported as an expenditure of the Support Services - Business/Pupils Transportation function of the government, along with all other current Pupil Transportation related expenditures.

LEOLA SCHOOL DISTRICT NO. 44-2
SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM

	2017	2016	2015
District's proportion of the net pension liability (asset)	0.0665721%	0.0644733%	0.0743679%
District's proportionate share of net pension liability (asset)	\$ 224,874	\$ (273,450)	\$ (535,790)
District's covered-employee payroll	\$ 1,253,353	\$ 1,152,405	\$ 1,300,490
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	17.941793%	-23.728637%	-41.199086%
Plan fiduciary net position as a percentage of the total pension liability	96.8900000%	104.0969086%	107.2868631%

*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of previous fiscal year.

LEOLA SCHOOL DISTRICT NO. 44-2
SCHEDULE OF THE SCHOOL DISTRICT'S CONTRIBUTIONS
SOUTH DAKOTA RETIREMENT SYSTEM

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 86,869	\$ 75,201	\$ 69,144
Contributions in relation to the contractually required contribution	\$ 86,869	\$ 75,201	\$ 69,144
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 1,447,824	\$ 1,253,353	\$ 1,152,405
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%

LEOLA SCHOOL DISTRICT NO. 44-2
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET) AND SCHEDULE OF CONTRIBUTIONS

Changes of benefit terms:

No changes were made.

Changes of assumptions:

No changes were made.